



## **THE EFFECT OF ENTREPRENEURIAL ORIENTATION ON PERCEIVED BUSINESS SUCCESS OF SMALL SCALE MANUFACTURING IN ETHIOPIA**

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### **ABSTRACT**

*This paper aims to address the effect of entrepreneurial orientation dimension variables on the perceived business success in small scale manufacturing enterprises in the text of less developing countries by taking one regional province of Ethiopia that is Amhara regional state. In this study, the explanatory research design was employed that is inclined towards a quantitative approach. Data were gathered from primary sources through a standardized questionnaire from small scale manufacturing enterprises working in the Amhara region. A blend of multi-stage sampling techniques was employed to choose appropriate samples and binary logistic regression analysis was applied for the purpose of data analysis. The study result showed that all five entrepreneurial orientation dimensions (autonomy, innovativeness, pro-activeness, competitive aggressiveness, and risk taking) variables were significant in predicting the odds of perceived business success. However, among those strongest predictors, only three of them (Risk Taking, Pro-activeness, and Competitive Aggressiveness) have the positive impact on the dependent variable, whereas the remaining two variables (Innovation and Autonomy) have a negative impact on the perceived business success of small scale enterprise.*

**Keywords:** Ethiopia, Entrepreneurial orientation, Business success, Small Enterprises.

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## 1. INTRODUCTION

Entrepreneurship is one of the most vital issues advancing economic growth and it creates new opportunities for job and competitiveness (Suzuki, Kim, and Bae, 2002). With today's rapidly changing business conditions, entrepreneurial orientation (EO) can be viewed as a critical issue to ensure the success of a business and has been recognized as potentially beneficial (Wiklund and Shepherd, 2005). The term "entrepreneurial orientation" has been utilized to allude to the strategy-making processes and styles of firms that engage in entrepreneurial activities (Lumpkin and Dess, 2001).

The investigation made by Henderson and Wailer (2010) demonstrated that small and medium-sized ventures have been for long recognized as the major engine of economic growth. The small enterprises' sector has been considered by academicians and policymakers as an engine of economic growth, poverty reduction, and social development because of its impact on employment and its job as a springboard to entrepreneurship (Bekele and Worku, 2008; Gebremichael & Kassahun, 2014). In Sub-Saharan Africa, the emerging economy countries like Ethiopia, and in addition in other emerging economies, for example, China, Asia, South Africa, and Brazil, SMEs form the biggest group within the private division. SMEs are estimated to constitute over 90% of all active business venture (Kozak, 2007). As per Bekele and Worku (2008), 98% of business firms in Ethiopia are MSEs, out of which Small enterprises represent 65% of all businesses activities. In Ethiopia, the MSE division is the second biggest employment generating next to agriculture. MSE sector created 1.5 million new job opportunities during the years 2006-2010 (Report of Federal Micro and Small Enterprises Development Agency (FeMSEDA), 2013).

Besides, the Growth and Transformation Plan (GTP) of Ethiopia has visualized the advancement of micro and small ventures as an important tool of poverty reduction (MoFED, 2010). Furthermore, the strategic pillars of the GTP (Growth and Transformation Plan) Ethiopia related to manufacturing include; developing light and small manufacturing ventures that are globally competent and leading in Africa (MoFED, 2010). Regardless of the sector level development, the truly necessary structural transformation has never even shown a sign of change. The industrial base of the country of the nation has stayed low contributing just 12-14% to GDP of which the medium and large factories, and additionally the light and small manufacturing, shared respectively 4% and 1.2% all through the previous decade.

Entrepreneurial orientation factors with business performance have been broadly talked about by various scholars (Lumpkin and Dess, 1996 & 2001; Wiklund and Shepherd, 2005). However, most by far of these researches came from developed countries, for example, America and Europe countries. Consequently, their research findings do not allow speculation on the significance of EO and their contribution to growth in less developed countries like Ethiopia.

Moreover, in Ethiopia, different scholars made different researches on entrepreneurial orientation. One of the research made by Gebremichael & Kassahun (2014) on entrepreneurial orientation as growth predictor of small enterprises evidence from the Tigray Regional State of Ethiopia. The study was utilized three components of entrepreneurial orientation (innovativeness, pro-activeness, and risk-taking) as factors and the study related to those factors with the growth of small enterprises. The findings of the prior researches in Ethiopia are not only inconsistent and opposing in recognizing the basic difficulties of small manufacturing enterprises, but also none of them explained how and to what extent perceived business success was related with or clarified by the stated business constraints.

However, this research applied statistical models to analyze to what degree the explanatory variables influence the business success of the small manufacturing enterprises. Furthermore, as per the researcher's knowledge, no studies have been carried out on perceived business success by consideration of the five entrepreneurial orientation dimension (autonomy, innovativeness,

pro-activeness, competitive aggressiveness, and risk-taking) factors in Amhara regional state, Ethiopia. Therefore, this research tried to examine the effect of entrepreneurial orientation on perceived business success in light of the Ethiopian context.

## 2. LITERATURE REVIEW

### 2.1. Conceptualization of Entrepreneurial Orientation (EO)

The term “entrepreneurial orientation” has been utilized to allude to the strategy-making processes or the technique influencing procedures and styles of firms that engage in entrepreneurial activities (Lumpkin and Dess, 2001). Entrepreneurial orientation is portrayed as the involvement of a firm to enter a new or another market (Lee and Peterson, 2000). Avlonitis and Salavou (2007) also set EO constitutes an organizational phenomenon that reflects a managerial capability by which firms embark on proactive and aggressive initiatives to alter the competitive scene further bolstering their advantage. Furthermore, Lumpkin and Dess (1996) developed five measurements that portray the EO of a firm such as; innovativeness, proactiveness, risk-taking, competitive aggressiveness, and autonomy. Thus, from what has been discussed so far, this study has conceptualized EO as the ability of a firm's leader/owner to demonstrate innovativeness, propensity to take risk and proactiveness to maximize opportunities while dealing with the firm.

### 2.2. Dimensions of Entrepreneurial Orientation

As indicated by Lumpkin & Dess (1996), entrepreneurial orientation alludes to top management's plan of action or strategy in connection to innovativeness, proactiveness, risk-taking, competitive aggressiveness, and autonomy. Different researchers (Lumpkin & Dess, 1996; Wiklund, 1999; Wiklund & Shpherd, 2005) proved the reliability and validity of the measurements of entrepreneurial orientation and utilized these five components to measure the level of entrepreneurial stance.

1. **Autonomy:** it is characterized as the willingness and the ability to work independently (Lumpkin and Dess, 1996). Casilas & Morena(2010)also express that autonomy constitutes one of the bases for entrepreneurial behavior which is the rights to making decisions. Similarly, Bleeker (2011) characterized autonomy as ability allows teams to solve problems with self-determined means and the extent to which teams have control over the ends. Studies have shown that businesses operate more adaptable with higher levels of productivity if owners give more autonomy or self-rule to the managers of the businesses and implements control and formalization (Dawson, 2012).
2. **Innovativeness:** it refers to a firms to engage in and grasps new thoughts, novelty, experimentation, and creative process that may lead to new products, services or processes (Lumpkin and Dess, 1996; Wang, 2008). Moreover, Lin, et al. (2008) proposed that innovativeness plays an important role in research, product development, technical expertise and knowledge exchange for future advancement. Consequently, a high level of technology as well as product market innovation reflects an essential indicator for SMEs to seek new business opportunities (Avlonitis and Salavou, 2007; Chen et al., 2012). Previous studies suggested that innovative firms will make a remarkable performance, economic growth, and apply creativity in the business environment (Lee and Lim, 2009; Lin, et al., 2008).
3. **Risk-taking:** it is characterized in terms of an individual's/organization's readiness to make vast and dangerous resource duties (Lumpkin, 1996 &2001); inclination to take bold action, for example, going into obscure new markets or ventures with

possibilities of failure or uncertain outcomes (Lumpkin & Dess, 2001; Caruana, et al.,2002). The significance of risk-taking and its impact on firm performance has been highlighted in different scholars. According to McGrath (2001), the willingness to engage in relatively high levels of risk-taking behavior enables SMEs to seize profitable opportunities in the face of uncertainty which leads to long-term profitability. On the other hand, Wang & Poutziouris(2010; Ahimbisibwe & Abaho, 2013) shows that risk-taking firms can anchor predominant development and long-term profitability rather than risk avoiders.

4. **Proactiveness:** it is concerned about a forward-looking behavior of an individual or organization. It is reflected in terms of current activities of a firm, for example, introducing new products or services in front of competitors in order to be a leader, instead of an adherent of its rivals (Limpkin & Dess,2001; Walter, Auer and Ritter,2006; Madsen,2007).
5. **Competitive aggressiveness:** refers to how a business identifies with competitors and how it reacts to the existing demand in the market. It tends to be clarified as an individual or organizations in the market competing for demand (Chang, Lin & Chen, 2007). The purpose behind focused competitive aggressiveness is thus to outperform rivals in the market (Antonic & Hisrich, 2003). It also reflects the willingness to be unconventional rather than to rely on traditional methods of competing (Lumpkin & Dess, 1996).

### 2.3. Relationship between Dimension of Entrepreneurial Orientation and Perceived Business Success

Quickly changing technology demands a firm to be innovative and grow new thoughts, items, and process and be willing to take a risk to adapt to the fast change. Accordingly, small-scale business operating in such dynamic environment ought to always look for new chances and gain greatest advantages from these opportunities ahead of rivalries. These enable ventures to create remarkable economic performance and firm business achievement.

Be that as it may, the relationship among EO and the firm's success has turned into the fundamental subject of enthusiasm for past literatures as debatable agenda. A few studies have demonstrated that EO and business success have been related to having positive results each other (Chow, 2006; Coulthard, 2007; Madsen, 2007; Lee, Lee, and Penning, 2001; Lumpkin and Dess, 1996). This infers the more owners/managers of small enterprises adopt an EO, the more they achieve competitive advantage and enhance performance (Wiklund and Shephard, 2005).

On the other hand, some studies have shown that EO and business success have a negative relationship (Matsuno, Mentzer, & Ozsomer, 2002; Morgan& Strong, 2003). Thus, the researcher coincides with few studies that on different situation, EO will have a direct and indirect impact towards a firm's performance depending on different environments (Zahra, 2008; Lumpkin and Dess, 1996). The study of EO especially on Lumpkin and Dess's (1996) dimensions are needed as many studies have proven there is a relationship between EO and business performance. Therefore, this study also tried to examine the effect of entrepreneurial orientation on perceived business success in light of the Ethiopian context.

## 3. METHODOLOGY

This research relies on quantitative types of research approach. The quantitative type is used more to explored the status of entrepreneurs' orientation of the small enterprise owners and managers. The quantitative type is used more to analyze the association between entrepreneurs' orientations variables and perceived business success. The target population of the study was the small scale enterprise owners, managers or their representatives from the study areas. Out of the target

population, 2765 total small enterprises (population) operating in the study areas, the researchers 400 respondents were selected for the study by using Slovin's sample size formula. Therefore, a total of 400 questionnaires were distributed to small enterprise owners and managers using multi-stage sampling. However, only 394 respondents responded to the survey. The data employed to undertake the research was gathered from primary sources, by using structured questionnaire. The measuring instrument for data collection is in the form of survey questionnaires which consists of close ended questions were divided into three sections. Demographic factors, the five dimensions of EO and perceived business success using a 5-point Likert scale.

In this study, the independent variables (EO) are divided into five dimensions of EO such as innovativeness, proactiveness, risk-taking, competitive aggressiveness, and autonomy. For perceived business success, the measurement adopted from previous studies. The instrument was pilot tested. The internal consistency of the instrument was checked by Cronbach Alpha. In order to analyze data collected from the sample; the obtained data is processed in the way that is appropriate for analysis for the whole survey operation. Besides, the researchers applied the data analysis technique consists of binary logistic regression analysis with statistical tools with the help of software package such as SPSS.

### 3.1. Model specification

Logistic regression is used to describe data and to explain the relationship between one dependent binary variable and one or more nominal, ordinal, interval or ratio-level independent variable (Hosmer and Lemeshow, 2000). The logit model is a model for binary response where the response probability is the logit function evaluated at a linear function of the explanatory variable (Wooldridge, 2000).

Based on the above consideration the study has used the following binary regression model is mathematically specified as follows:

$$= \log (pi/1-pi) = \ln (\text{odds}) = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + U_i \quad (1)$$

The corresponding multiplicative model for the odds is: -

$$P(i)/1-p(i) = \exp \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + U_i \quad (2)$$

Where,

**$\alpha$**  - Vector of coefficient of independent variation or it is the intercept

**$B_1$**  – Vector coefficient of variables, which indicate autonomy

**$B_2$** -Vector Coefficient of variables, which indicate innovativeness

**$B_3$**  – Vector Coefficient of variables, which indicate proactiveness,

**$B_4$** - Vector Coefficient of variables, which indicate risk-taking

**$B_5$** - Vector Coefficient of variables, which indicate competitive aggressiveness

**$Y$** - Whether the firm's owner/ manager perceived business success or not i.e.

1= business success 0= not business success

**$P_i$** = probability of  $Y=1$  or it is the probability of success

**$(1-P_i)$**  = the probability of not success

**$X_1$**  - Vector variables, which indicate autonomy

**$X_2$** -Vector variables, which indicates innovativeness

**$X_3$** -Vector variables, which indicates pro-activeness

**$X_4$** -Vector variables, which indicates risk-taking

**$X_5$** -Vector variables, which indicates competitive aggressiveness

$U_i$  - Error term

## 4. RESULTS AND DISCUSSION

This part present data analyzed and discussed by econometric model analysis. An econometric model was employed to identify the effect of entrepreneurial orientation on perceived business success in light of the Ethiopian context. In this study from the total 400 distributed questionnaires for business owner/managers, 394 were returned.

### 4.1. Results of Analysis of Binary Logistic Regression

In this, the result of binary logistic regression and the significance and impact of each explanatory variable on the response variable is discussed. In statistics, logistic regression is a type of regression analysis used for predicting the outcome of a categorical dependent variable (with a limited number of categories) or dichotomy dependent variable based on one or more predictor variables.

Before giving the interpretation to the results of the model, we should check whether or not the model fits the data well.

#### 4.1.1. Omnibus Test of Model Coefficients

Omnibus test one part of a statistical test is executed on an overall hypothesis that will in find general importance between parameters' change while looking at parameters of the same type. The omnibus tests of model coefficients give a general indication of how well the model performs.

**Table 1.** Omnibus test of model coefficients

		Chi-square	df	Sig.
Step 1	Step	65.977	5	.000
	Block	65.977	5	.000
	Model	65.977	5	.000

Source: survey result, 2018

The table above shows model which includes all predictors and values in the Omnibus Tests of Model Coefficients is given in a Chi-Square of 65.977 with 5 degrees of freedom, which is significant at 0.05. Since the omnibus test is significant at 5% level of significance it can be concluded that adding the predictors to the model have significantly increased our ability to predict the success of the firm performance.

#### 4.1.2. Model Summary

The purpose of the model summary is to see how much variation in the dependent variable can be explained by the model. The Cox & Snell R Square and the Nagelkerke R Square values give an indication of the amount of variation in the dependent variable explained by the model.

**Table 2.** Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	334.363 <sup>a</sup>	.154	.242

Source: survey result,2018

In this research under model Summary above we see that the Cox & Snell R Square and Nagelkerke R Square values, which are both methods of calculating the explained variation. Therefore, in this study, Cox and Snell R<sup>2</sup> indicate that 15.4% of the variation in the

dependent variable was explained by the explanatory variables. Nagelkerke R Square in the model summary table above is 0.242, which indicates that 24.21% of the variability in the dependent variable was explained by the explanatory variables. Generally, the explained variation in the dependent variable based on our model ranges from 15.4% to 24.2%, depending on whether you reference the Cox & Snell R<sup>2</sup> or Nagelkerke R<sup>2</sup> methods, respectively.

#### 4.1.3. Homers and Lemeshow test

The Hosmer-Lemeshow goodness-of-fit statistic is another test used to evaluate the model fit. The test looks at the anticipated values against the actual values of the dependent variable (Hosmer and Lemeshow, 2000). A good fit model will have a small Hosmer-Lemeshow test statistic and a p-value that is greater than 0.05 level of significance. As it is observed from the table 3, P-value = 0.355 which is greater than the level of significance  $\alpha=0.05$ , hence data fit the model well. Therefore, logistic regression model is a good fit.

**Table 3** Homers and Lemeshow test

Step	Chi-square	df	Sig.
1	25.658	8	0.355

Source: survey result, 2018

#### 4.1.4. The effect of Entrepreneurial Orientation on Perceived Business Success

After the assessment/ evaluation of the overall model and goodness of fit test, statistical tests of individual predictors are conducted to identify the effect of entrepreneurial orientation on perceived business success in small manufacturing enterprise in case of Ethiopia. The binary logistic regression result table 4 shows the contribution of each independent variable to the dependent variables in the model and its statistical significance at which the significance values less than 0.05.

These are the variables that contribute significantly to the predictive ability of the model. As shown in Table 4 below, we have five significant variables (autonomy P=0.000, innovation P=0.050, risk-taking P= 0.005, pro-activeness P=0.000 and competitive aggressiveness P=0.010) are found to be the most important determinant factors since ( $p<0.05$ ).

**Table 4.** Binary Logistic regression results

Variables	B	S.E.	Wald	df	Sig.	Exp(B)
Autonomy	-1.395	.336	17.292	1	.000	.248
Innovation	-0.423	.216	3.838	1	.050	.655
Risk Taking	.654	.231	8.029	1	.005	1.923
Pro-activeness	1.283	.229	31.429	1	.000	3.607
Competitive Aggressiveness	.514	.200	6.571	1	.010	1.671
Constant	-.715	1.640	.190	1	.663	.489

In the variables in the equation indicate table 4 above is provided information about the Exp(B). These values are the odds ratios (OR) for each of the independent variables and Exp ( $\beta$ ) shows the odds ratio associated with each predictor variable. The odds ratio of 1 indicates that the predictor variable has no influence on the dependent variable. This means that the two variables are statistically independent. The odds ratio greater than 1 indicates that the two variables are statistically dependent or predictor variable has a positive influence on the dependent variable. The value of odds ratio less than 1 indicates that the two variables are statistically dependent and predictor variable has a negative influence on the dependent variable.

Based on this information, in this study logistic regression was performed to assess the effect of a number of factors on the likelihood of their business success. The model contained five independent variables (Autonomy, Innovation, Risk Taking, Pro-activeness, and Competitive Aggressiveness). As shown in Table 4, all five of the independent variables made a unique statistically significant contribution to the model.

However, among those strongest predictors only three of them (Risk Taking, Pro-activeness and Competitive Aggressiveness) have positive impact on dependent variable (see regression coefficient under column B of the table above), whereas the remaining two variables (Innovation and Autonomy) have a negative impact on the dependent variable “perceived business success of small-scale manufacturing enterprise”. The thorough discussion and interpretation of each strongest predictor variables are as follows.

**Autonomy:** - It is ability allows teams to solve problems with self-determined means and the extent to which teams have control over the ends. If owners give more autonomy or self-rule to the managers of the businesses and implements control and formalization, the businesses operate more adaptable with higher levels of productivity. This variable was hypothesized to influence the perceived business success positively. As autonomy increase perceived business success increase. The p-value (Sig.) for autonomy is .000 indicates that it is a statistically significant predictor variable which has a negative effect (its Exp (B) is less than 1) on perceived business success. This indicates that the increase in autonomy level will result in a decrease in business success. Its Exp (B) value .248 signifies that there is a strong negative relationship between the predictor variable autonomy and business success.

**Innovativeness:** It refers to a firms to engage in and grasps new thoughts, novelty, experimentation, and creative process that may lead to new products, services or processes and may lead decreases the firm’s success and thereby influence the perceived business success of small-scale manufacturing enterprise negatively. It is p-value.050 indicates that this variable is statistically significant predictor variable which has a negative impact (its Exp (B) is less than 1) on the perceived business success of small-scale manufacturing enterprise. Its Exp (B) value, .655, is less than 1, indicating that for every additional grasps new thoughts, novelty, experimentation, and creative process the likelihood of small-scale manufacturing enterprise to become success decrease by a factor of .655.

**Risk Taking:** It was hypothesized that the managers or business owner highly incline to take bold action, for example, going into obscure new markets or ventures with possibilities of failure or uncertain outcome that may lead decreases the firm’s success and thereby influence the perceived business success of small-scale manufacturing enterprise negatively. However, the p-value (Sig.) for risk-taking is .005 indicates that it is statistically significant predictor variable which has the positive effect (its Exp (B) is more than 1) on perceived business success. This indicates that the increase in risk-taking level will result in the increase of business success. Its Exp (B) value 1.923 indicates that it is a useful strong predictor of the perceived business success of small-scale manufacturing enterprise. The odds ratio indicates that there is a positive relationship between the predictor variable and the dependent variable

**Pro-activeness:** It is one of the statistically significant predictor variable influencing the perceived business success of small scale manufacturing enterprise at p-value .000. Its Exp (B) value which is 3.607 indicates that it is a useful strong predictor of the perceived business success of small scale manufacturing enterprise. The odds ratio indicates that there is a positive relationship between the predictor variable (Pro-activeness) and the dependent variable (business success).

**Competitive Aggressiveness:** refers to how a business identifies with competitors and how it reacts to the existing demand in the market. It tends to be clarified as an individual or organizations in the market competing for demand. This variable is statistically significant at p-



value .010. This indicates that it is a statistically significant predictor variable, which has a positive influence on the perceived business success of small-scale manufacturing enterprise. Its Exp (B) value 1.671 indicates that there is a positive relationship between competitive aggressiveness and perceived business success. Therefore, the more competitive aggressiveness the more perceived business success since an increase into competitive aggressiveness has increased the likelihood perceived business success of small-scale manufacturing enterprise by a factor of 1.671.

## 5. CONCLUSION

The study analyzed the effect of entrepreneurial orientation dimensions on perceived business success in the case of Amhara regional state, Ethiopia particularly, small manufacturing firms. The business success and entrepreneurial orientation practice among Amhara regional state small enterprises are moderate. In general, the entrepreneurial orientation that all variables were included in the study such as autonomy, innovation, risk-taking, pro-activeness, competitive aggressiveness were significant in predicting the odds of perceived business success since the p-value is less than the significant level (0.05). However, among those strongest predictors, only three of them (Risk Taking, Pro-activeness, and Competitive Aggressiveness) have the positive impact on the dependent variable, whereas the remaining two variables (Innovation and Autonomy) have the negative impact on the perceived business success of small-scale manufacturing enterprise in Amhara regional state, Ethiopia.

## 6. IMPLICATIONS OF THIS STUDY

In this century entrepreneurship is the key strategic tool to sustain the overall social-economic development of any nation. This study gives additional evidence to the existing body of knowledge in entrepreneurship research by investigating the effects of EO on perceiving business success. It contributes to Policymakers and others stakeholders to support small-scale business in research and development activities, training and consultancy services in order to enhance the level of EO of Small-scale enterprise owners/managers. Besides, owners and practitioners of the small-scale enterprise can take findings of this research as the source of useful information to understand the importance of entrepreneurial oriented strategy so that they can take necessary actions to enhance their level of entrepreneurial orientation so as to sustain the success of their business.

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